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Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

April 25, 2023

Meeting Minutes

Members Present:	Douglas Goe, Michael Kaplan, Deanne Woodring, Sharon Wojda, Michelle Morrison, Brian Nava
Staff Present:	Perrin Lim, Rex Kim, Will Hampson, Sara Bayes, Jeremy Knowles, Alli Gordon, Cora Parker, Bryan Cruz González, Annie Gregori, Ericka Langone, Andy Coutu, Tan Cao, Ken Tennies, Scott Robertson, Karl Cheng, Kristi Jenkins, Roy Jackson, Andrey Voloshinov, Whitney Maher, Josh Jones
Other Attendees Present:	PFM Asset Management: Lauren Brant GPA: Whitney Maher, Rashad Masri Lake County: Ann Crumrine Lane County: Greg Holmes (not on call)

The April 25, 2023 OSTF meeting was called to order at 10:00am by Douglas Goe, OSTF Chair.

I. Opening Remarks

Douglas Goe welcomed all to the Oregon Short Term Fund Board (the “Board”) meeting and roll was taken.

II. Review and Approval of Minutes

MOTION: Mr. Goe asked for a motion to approve the January 31, 2023 OSTF meeting minutes. The Board approved the minutes unanimously.

III. LGIP/OSTF Investment Policy Review

Lake County

PRESENTED BY Jeremy Knowles, Investment Analyst. Jeremy Knowles reviewed the investment policy for Lake County (“County”). Lake County (“County”) last presented their policy to the OSTF Board in 2017. In December 2022, the County hired Government Portfolio Advisors (GPA) to help them revise their investment policy. The County wishes to adopt a policy similar to the OSTF Board sample policy, except as otherwise noted below. The amount of funds falling within the scope of this policy over the next three years is expected to range between $22 and $28 million.

Summary of Key Changes:

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Treasury Staff compared the County's proposed policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff to the County so it was deemed fine to proceed without revisions. The County desires maximum maturities of 5.25 years to take advantage of new issues that often have maturities of slightly beyond 5 years.

Full Treasury Staff Recommendations:

- Recommend reducing maximum % per issuer for US Agency Obligations to 33% from 35%.
  - Addressed in sample policy changes
- Recommend reducing maximum % holdings for Municipal Debt from 25% to 10%.
- It is stated that a rating will be used but not how to determine one. Recommend specifying how to determine a security's rating:
  - A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor's, Moody's Investor Services and Fitch Ratings respectively.
- Recommend adding Liquidity Risk definition:
  - Liquidity risk is the risk that an investment may not be easily marketable or redeemable.
- Recommend elaborating on the importance of issuance size:
  - Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors. Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity.
  - Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance.
- Recommend specifying interest rate risk and how you will mitigate it:
  - Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to the changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. Certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments.
  - The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:
    - i. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.
    - ii. To the extent feasible, investment maturities not matched with cash outflows, including liquidity investments under one year, should be staggered to mitigate re-investment risk.
    - iii. No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.
    - iv. The maximum percent of callable securities in the portfolio shall be xx%.

- Ann Crumrine commented that GPA has provided fantastic advice and she was excited for Lake County to do the best they can with surplus funds in a very responsible and prudent way and appreciates the feedback from the Oregon Short Term Fund Board and GPA.

COMMENTS FROM THE BOARD

- Brian Nava had a question regarding the recommendation on reducing Municipal Debt from 25% to 10% and requested feedback regarding why Lake County was wanting it to be much higher than the recommended policy was suggesting.
  - Ms. Crumrine responded that this allows for flexibility and since it's not defined in statute it's available in case an opportunity arises.

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  - Rashad Masri echoed Ms. Crumrine's comments and mentioned that much of how GPA would handle municipal exposure would be further constrained in their strategy documentation and as Ms. Crumrine mentioned this would allow for more flexibility in policy. Additionally, this is not an overwhelming percentage of the portfolio. GPA is comfortable with the 25% as it is constrained enough while providing flexibility depending on what they see in the market.
- Mr. Nava asked if the Board should update the sample policy to suggest more flexibility and increase to 15% or 20% and questioned if the policy or if the County's approach is inaccurate?
  - Mr. Masri responded that he would be in favor for the sample policy to be more flexible getting up to the 15% to 20% range and then use strategy to toggle underneath that allocation.
- Chairman Goe asked how much of the existing portfolio is in municipals.
  - Mr. Masri replied that it is currently very minimal and most of the portfolio is in agencies, treasuries and some corporates. The strategy for the County is in the 10% to 15% range for Municipal allocation over time as it makes sense to add.
- Perrin Lim mentioned that Treasury staff will be reviewing the sample investment policy guidelines after GPA's review.
- Sharon Wojda suggested considering including some of the definitions that Treasury staff outlined in the matrix including those in the policy, clarifying the language on the security rating and how to determine which rating to use could help make the County's administration and compliance easier.
  - Ms. Crumrine replied that she likes all of definitions that have been inserted and agrees that being more clear and concise is a great suggestion and will add definitions and ratings for example where applicable.
- Mr. Goe echoed Ms. Wojda and Treasury staff's good comments and recommendations and thanked the County for bringing forward their policy.

Lane County

PRESENTED BY Jeremy Knowles, Investment Analyst. Jeremy Knowles reviewed the investment policy for Lane County ("County"). Lane County ("County") last presented their policy to the OSTF Board in 2011. In January 2023, the County hired Government Portfolio Advisors (GPA) to help them revise their investment policy. The County wishes to adopt a policy similar to the OSTF Board sample policy, except as otherwise noted below. The amount of funds falling within the scope of this policy over the next three years is expected to range between $250 million and $500 million.

Summary of Key Changes:
Treasury Staff compared the County's proposed policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff to the County so it was deemed fine to proceed without revisions. The County desires maximum maturities of 5.25 years to take advantage of new issues that often have maturities of slightly beyond 5 years.

Full Treasury Staff Recommendations:
- Recommend reducing maximum % per issuer for US Agency Obligations to 33% from 35%.
  - Addressed in sample policy changes
- Recommend reducing maximum % holdings for Municipal Debt from 25% to 10%.
- It is stated that a rating will be used but not how to determine one. Recommend specifying how to determine a security's rating:
  - A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor's, Moody's Investor Services and Fitch Ratings respectively.
- Recommend adding Liquidity Risk definition:
  - Liquidity risk is the risk that an investment may not be easily marketable or redeemable.
- Recommend elaborating on the importance of issuance size:
  - Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors. Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance

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for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity.
    - Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance.
- Recommend defining interest rate risk:
    - Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to the changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. Certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments.

- Rashad Masri added that the County is excited about the review and revamp of the policy and getting it up to best practice and close to the sample policy.

COMMENTS FROM THE BOARD
- Sharon Wojda expressed the same comments from Lake County's policy which was considering including some of the definitions that Treasury staff outlined in the matrix including those in the policy, clarifying the language on the security rating and how to determine which rating to use which could help make the County's administration and compliance easier.
- Brian Nava echoed Ms. Wojda's comments.
- Chairman Goe also echoed Ms. Wojda's comments and would also like to have the County outline the existing concentration of municipals in the County's portfolio.
    - Rashad Masri noted that GPA inherited and has been managing the portfolio for a few months, the County's current concentration of municipals in the total portfolio is approximately 9%.
- Mr. Nava asked if it would be beneficial to have GPA outline the services they provide in relation to broker/dealer vs. advisor vs. managed portfolio.
    - Mr. Goe replied that this would be beneficial and suggested GPA and Treasury staff revisit the discussion during the next board meeting.

IV. Review Sample Investment Policy" ESG Proposal & Additional Policy Updates

PRESENTED BY Rex Kim, Chief Investment Officer, Investment Division and Perrin Lim, Investment Officer, Fixed Income. Rex Kim, Chief Investment Officer, Investment Division and Perrin Lim, Investment Officer, Investment Division provided a presentation about the Oregon Short Term Fund Board Sample Policy for Local Governments, including a review of ESG language under the various proposed options below. ESG language has been embedded into the risk section of the Sample Policy document providing two separate options for language, the first draws on language from the Oregon Investment Council Statement of Investment Beliefs and the second allows for more of an impact orientation if that is what the local government or agency selects based on their level of statutory flexibility.

Rex Kim noted that there are various ways to define ESG and determine what ESG would mean to different organizations. The Board and Treasury staff would thus help local governments help determine where they reside in the spectrum and incorporate ESG into their investment policy. Mr. Kim stated for those who are interested in having ESG language incorporated into their policy, there are two options, one being material risk factors and the other is impacts to socially responsible investing.

Environmental, Social, and Governance Factors
***** Choose yes or no to include. If yes, consider only i. or both i. and ii. *****

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i. The integration of Environmental, Social and Governance ("ESG") factors, similar to other investment factors, may have a beneficial impact on the economic outcome of an investment and aid in the assessment of risks associated with that investment. The consideration of financially material ESG factors within the investment decision-making framework may be important in understanding the near-term and long-term impacts of investment decisions and may be an important step towards building a more sustainable portfolio.
ii. (Consider adding the following language in addition to the above.) To the extent consistent with our fiduciary responsibility, we also seek to understand what effects our investments may have and identify ways we can enhance the positive impact of our investments and help mitigate the negative impact.

COMMENTS FROM THE BOARD

- Chairman Goe recognized that this can be a controversial topic for local governments and their governing board, however part of the role of the Board is to provide local governments with sample language which can be considered.
- Brian Nava echoed Mr. Goe's comments and as the OACTFO representative expressed that there is diversity amongst counties in terms of the ESG language. Mr. Nava noted it is advantageous to outline the goals of ESG language. Mr. Nava received support from OACTFO to have the standard language included in the sample policy while keeping the option to add the language elective.
- Sharon Wojda echoed Mr. Nava's comments and reiterated that she likes having the suggestive language with the option to adopt into a sample policy.
- Mr. Goe thanked Treasury staff for their work and perspective and the good discussion.

Perrin Lim discussed the first draft of revisions to the Sample Investment Policy from staff's perspective with the assumption that *all* local governments may see and potentially adopt the revisions. Regarding the ESG language revisions sent on March 9, 2023 after the discussion at the January Board meeting, Mr. Lim left "as is," to be further reviewed at the upcoming meeting. The following topics in the matrix were reviewed:

- Investment Advisors Maintenance: **Proposed Revision: Yes**
  - Removed " C. Significant decline in assets under management."
- US Agency Constraints; Max Exposure: **Proposed Revision: Yes**
  - Revised "(Per Agency) Maximum % Holdings" to 40% from 33%
- Corporate Debt; Max Exposure: **Proposed Revision: Yes**
  - Revised Corporate Commercial Paper and Corporate Bonds "Maximum % Holdings" to 25% from 15%
  - Revised Corporate Commercial and Corporate Bonds Paper "Maximum % Holdings Per Issuer" to 5% from 2.5%
- Repurchase Agreements: **Proposed Revision: TBD**
  - Recommended removal of 3-year maturity collateral constraint but would require revision to ORS 294.035 (3)(i)
- Time Deposits, CD's, Savings Accounts: **Proposed Revision: TBD**
- Private Placement or "144A" Securities: **Proposed Revision: No**
- Securities Lending & Reverse Repurchase: **Proposed Revision: No**
- Determining a Security's Rating: **Proposed Revision: No**
- Maturity Buckets: **Proposed Revision: Yes**
- Issuance Size: **Proposed Revision: No**
- Maximum Callable Exposure: **Proposed Revision: No**
- Maximum Investment Maturity: **Proposed Revision: Yes**

COMMENTS FROM THE BOARD

- Deanne Woodring had questions within the Ratings section: Determining a Security's Rating: A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor's, Moody's Investor Services and Fitch Ratings respectively. Ms.

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Woodring's Comments: Consider changing this to at least one rating, must be at the AA- equivalent level. Must have at least one at rating standard required. Treasury Staff Comments: Staff recommends no change to current language. Ms. Woodring commented that the way this reads indicates that if there are two AAs and one single A, then you cannot buy it if you use the "lowest" rating, which is challenging to manage when the lowest rating is stated. This would work well for regular locals who do not have good credit, however this will be constraining for others. Ms. Woodring expressed the intent of the Sample Policy is to guide local governments that do not have strong expertise inhouse and thus should be stated by us accordingly. Ms. Woodring suggested revisit the ratings.

  - Mr. Lim stated that he agrees.

- Ms. Woodring had some reservations pertaining to the Liquidity section noting that it is difficult to drill into and get the data out of, as tracking and managing can be difficult.
  Liquidity Risk (Definition): Different ways to look at this—liquidity risk is also, not managing to have enough cash on hand. The easily marketable language is moot because the allowable investments constrain all to marketable securities.
  [IX(2)]: Liquidity risk is the risk that an investment may not be easily marketable or redeemable as well as a shortfall of operating cash resulting in the need to sell securities and, thus, principal risk. The following strategies will be employed to mitigate liquidity risks:
  Liquidity – Operating Expenditures: This is alternative language to the maturity buckets.
  [IX(2)(i)]: The value of at least 25% of funds available for investing or [three/six/twelve] months of budgeted operating expenditures will be invested in the Oregon Short Term Fund or investments maturing in less than [30/60/90] days to provide sufficient liquidity for expected disbursements.
- Ms. Wojda mentioned it may be helpful to provide some of the educational components and explanation within the Sample Policy.
- Will Hampson commented on the rating piece and suggested that the Board consider language that states "the lower of two ratings or the middle of three ratings is acceptable and in inclusion of any nationally statistically recognized rating organization" as a potential solution that he has seen applied elsewhere.
- Chairman Goe commented on the statutory changes and referenced the MDAC (Municipal Debt Advisory Commission) bill for cleanup with changes to local government investment and finance statues. Mr. Goe suggested that the Board and Treasury staff consider having a committee work on these changes and prior to the legislative's session filing deadline, put forward a bill with any agreed upon statutory changes.
- Ms. Woodring suggested a change of ranges instead of a hard number for the Maturity Buckets section.
  Maturity Buckets Review: 10% under 30 or 90 days
  25% under 1 year
  100% under 3.25 years or 5.25 years.
  Due to project funds, advisor recommends 25% under 1 year.
  Treasury Staff Comments: Staff recommends no change to current language**.**
  [IX(2)(ii)]: Under [30/60/90] days > 25% or [three/six/twelve] months Estimated Operating Expenditures
  Under 1 year > 50%
  Under [3/5] years > 100%
  - Perrin Lim is agreeable to the suggestion regarding a range or even a clause that states "up to a maximum amount".
- Mr. Goe inquired about Treasury staff putting together a sample policy that reflects their view while also addressing comments from the Board.
  - Mr. Lim approved of this proposal.
- Mr. Nava asked if Treasury staff would like the Board to identify any conflicting areas that need clarification.
  - Mr. Lim stated that there will be some redrafting to the sample policy and can be discussed further.
- Ms. Woodring suggested referencing the Government Investment Officers Association's (GIOA). The GIOA is a national association that has done a good job on their best practices for policies. The GIOA sample policy was recently updated and they perform a peer review, so public entities can send their

policies to them for valuable guidance. Ms. Woodring will send this to Treasury staff with highlights on what other entities are including nationally and Treasury staff can also incorporate additionally beneficial sections as well.
- Mr. Goe thanked the Board and Treasury staff for their good work on the sample policy and encourages folks to share any additional thoughts with Treasury.

V. LGIP Participants and Operations Overview

PRESENTED BY Cora Parker: Cora Parker thanked the Board for the opportunity to present today. Ms. Parker presented a brief portfolio overview. Our partner Lauren Brant with PFM Asset Management discussed the OSTF Portfolio Overview, outlining the total dollars invested in Oregon Short Term Fund over time as well as the breakout between the local government and state. Ms. Brant reviewed the Participant Distribution and Participant Breakdown for School Districts, Special Districts, Counties, Cities and Other. The "Other" category is comprised of Council of Governments, Urban Renewal Agency, Housing Authority, Commodity Commission, Semi-Independent State Agency and Tribe. Today's balances for the Oregon Short Term Fund are just over $35 billion dollars and the local government component representing slightly under $11 billion dollars of that amount. Ms. Brant reviewed the Participant Distribution and Participant Breakdown for School Districts, Special Districts and Cities which make up 81% of LGIP's overall portfolio assets. Ms. Brant reviewed the Asset Comparison Year over Year and assets are slightly down, approximately $100 million dollars lower year over year. Ms. Brant reviewed Net Cash Flows by month and year, in January 2023 there was a higher amount of net flows versus years prior. For New & Closed Participants there are two new participants, a Council of Governments in addition to a Special District and no closed participants for the period.

TOPICS

- Oregon Short Term Fund Analysis
- Participant Breakdown
- Participant Distribution
- Transaction Activity
- SLA Report Metrics
- New & Closed Participants

COMMENTS FROM THE BOARD

- Chairman Goe thanked PFM Asset Management and staff for the excellent overview.

VI. OSTF Market Overview and Portfolio Update

PRESENTED BY Perrin Lim: Perrin Lim presented the OSTF Portfolio update.

- OSTF Sector Allocation, MV% (last 5 years).
- OSTF Sector Allocation, MV$ (last 5 years).
- Treasuries: 12/31/2022 – Present.
- 2-Year Treasury Note Volatility in March.
- MMFs, especially Government, benefit at expense of regional banks.
- Welcome Improvement in CPI & PCE.
- Real Federal Funds Rate: 2005 – Present.
- Fed Funds Futures: 3/15/23 compared to 4/19/23.
- Flashback to July 2011 Debt Ceiling and Default Watch.
- Snapshot of the Short-Term Fixed Income Markets + OSTF

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- OSTF Portfolio Overview: Liquidity Schedule, Floating Rate Breakdown & OSTF Effective Ratings.
- Sector allocation and duration positioning drive total return performance (over & under).
- On a YTD basis, the OSTF has increased allocations to Treasuries and ABS from Corporates.
- Continued focus on credit quality at the issuer level.
- Floating rate securities have been a core position for 15+ years and will continue to be a focus, especially in the current environment.

COMMENTS FROM THE BOARD

- Deanne Woodring noted that there was some Credit Suisse exposure in the portfolio and asked Perrin Lim what exposure was in there and if it was gone.
    - Mr. Lim stated that the exposure is not gone and the portfolio still owns Credit Suisse commercial paper maturing in June 2023.
- Ms. Woodring commended local governments for pulling through during this national crisis, the consensus is favorable regarding the higher rates and Ms. Woodring appreciates everyone's hard work.

VII. Closing Remarks/Other Items of Business

- Mr. Goe thanked everyone for a good meeting, appreciates the input and looks forward to the next meeting.

Mr. Goe adjourned the meeting at 11:45 AM.

Respectfully submitted,

Alli Gordon
Executive Support Specialist